

## ATTACHMENT 1

### Page 1

-----Original Message-----

**From:** Duda, Dorothy  
**Sent:** Thursday, October 02, 2003 12:04 PM  
**To:** 'chuther@prestongates.com'; 'megan@prestongates.com'; 'mhazzard@kelleydrye.com'; 'terrance.spann@hqda.army.mil'; 'lupita.reyes@verizon.com'; 'bcobb@covad.com'; 'esther.h.northrup@xo.com'; 'kkirby@davidsdixon.com'; 'karen.potkul@xo.com'; 'jeff@callamericacom.com'; 'lfinkel@adamsbroadwell.com'; 'cmailloux@turn.org'; 'elaine.duncan@verizon.com'; 'rcosta@turn.org'; Wales, Natalie; 'anitataffrice@earthlink.net'; 'steve.bowen@bowenlawgroup.com'; 'david.discher@sbc.com'; 'jtobin@mofo.com'; 'jk1786@sbc.com'; 'stephanie.krapf@sbc.com'; 'william.harrelson@mci.com'; 'glenn@stoverlaw.net'; 'davidjmiller@att.com'; 'deanhardt@att.com'; 'smalllecs@cwclaw.com'; 'jclark@gmssr.com'; 'michael.morris@algx.com'; 'smalllecs@cwclaw.com'; 'davidmarchant@dwt.com'; 'mmattes@nossaman.com'; 'ens@loens.com'; 'karen.potkul@xo.com'; 'esprague@pacwest.com'; 'mash@mpowercom.com'; 'dlee@snavely-king.com'; 'cronis@wilmer.com'; 'john.felz@mail.sprint.com'; 'arooker@cwa9400.com'; 'pagemont@cox.net'; 'mmulkey@arrival.com'; 'heidineal@momsavesjobs.org'; 'es3982@sbc.com'; 'eric.batongbacal@sbc.com'; 'nnail@caltel.org'; 'cynthia\_walker@icgcomm.com'; 'emitchell@angnewspapers.com'; 'pceguera@covad.com'; 'jsumpter@pacwest.com'; 'jgordon@cwa-union.org'; Stevens, Maria E.; Poschl, Christopher; Duda, Dorothy; Lakritz, Jonathan; Ragsdale, Keith; Billingsley, Natalie; Phillips, Paul; Litkouhi, Simin; Koundinya, Sridarshan; Banuelos, Victor; Fung, William; Johnston, William; Lofaso, Alan; Machado, Carlos  
**Subject:** A.01-02-024 (SBC 2001/2002 UNE Reexamination) Request for Joint Applicants to Clarify Position

Messrs. Miller and Harrelson:

By this e-mail to the entire service list of this proceeding, I am requesting supplemental information so I can understand the record I have before me.

As I review the filings, I find myself unclear about Joint Applicants' (JA) proposal for cost of capital. I have considered asking for a comparison exhibit to solve my confusion, but rather than ask the parties to engage in more work, I thought I would try this approach. Please respond to the questions below via e-mail and cc the service list for this proceeding. I will memorialize this request and your response in a later ruling, but I think this is the most efficient and expeditious way for me to get an answer to my questions. Here goes:

1. I understand that JA's original proposed weighted average cost of capital of 7.7% was "corrected" in the 2/7/03 filing to 7.8%, then "updated" to 7.51%. But I am unclear on whether JA then update that proposal on 3/12/03 to 7.63%, or whether the new 7.63% figure is merely used to attempt to show that either 7.8% or 7.51% are reasonable.

2. Ms. Murray's declaration of 3/12/03, para. 105 refers to 7.63%, but does not provide a cite showing how she calculates this. Where is the supporting documentation showing the components of the entire calculation?

2. Ms. Murray's declaration of 3/12/03, para 103, states that her cost of equity estimates are updated to an average of 9.92%. What cost of equity estimates is she referring to and where can I find the calculations in the 3/12 filing that support a 9.92% cost of equity.

I do apologize if I am asking you to repeat something that may be embedded in one of your filings, but I think you can understand that with the size of this record, I occasionally need a roadmap. Please respond within two business days to this request and most importantly, limit your response to the questions above.

If other parties feel the need to respond after seeing Joint Applicants' response to my questions, they may do so via e-mail as well. But I ask that parties seriously refrain from editorializing or

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rearguing positions that are already on the record. I do not want to receive an endless string of e-mails on this topic that are repetitive of filings contained on the record.  
Thank you.

*Dorothy J. Duda*  
*Administrative Law Judge*  
*California Public Utilities Commission*  
*415-703-2800*  
*[dot@cpuc.ca.gov](mailto:dot@cpuc.ca.gov)*

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-----Original Message-----

From: Miller, David J - LGCRP [mailto:davidjmilller@att.com]  
Sent: Monday, October 06, 2003 4:11 PM  
To: Duda, Dorothy; chuther@prestongates.com; megant@prestongates.com;  
mhazzard@kelleydrye.com; terrance.spann@hqda.army.mil;  
lupita.reyes@verizon.com; bcobb@covad.com; esther.h.northrup@xo.com;  
kkirby@davidisdixon.com; karen.potkul@xo.com; jeff@callamericacom.com;  
lfinkel@adamsbroadwell.com; cmailloux@turn.org;  
elaine.duncan@verizon.com; rcosta@turn.org; Wales, Natalie;  
anitataffrice@earthlink.net; steve.bowen@bowenlawgroup.com;  
david.discher@sbc.com; jtobin@mofo.com; jk1786@sbc.com;  
stephanie.krapf@sbc.com; william.harrelson@mci.com;  
glenn@stoverlaw.net;  
Deanhardt, W C (Clay) - LGCRP; smalllecs@cwclaw.com; jclark@gmssr.com;  
michael.morris@algx.com; smalllecs@cwclaw.com; davidmarchant@dwtd.com;  
mmattes@nossaman.com; ens@loens.com; karen.potkul@xo.com;  
esprague@pacwest.com; mash@mpowercom.com; dlee@snavely-king.com;  
cronis@wilmer.com; john.felz@mail.sprint.com; arooker@cwa9400.com;  
pagemont@cox.net; mmulkey@arrival.com; heidineal@momsavesjobs.org;  
es3982@sbc.com; eric.batongbacal@sbc.com; nnail@caltel.org;  
cynthia\_walker@icgcomm.com; emitchell@angnewspapers.com;  
pceguera@covad.com; jsumpter@pacwest.com; jgordon@cwa-union.org;  
Stevens, Maria E.; Poschl, Christopher; Lakritz, Jonathan; Ragsdale,  
Keith; Billingsley, Natalie; Phillips, Paul; Litkouhi, Simin;  
Koundinya,  
Sridarshan; Banuelos, Victor; Fung, William; Johnston, William; Lofaso,  
Alan; Machado, Carlos  
Subject: RE: A.01-02-024 (SBC 2001/2002 UNE Reexamination) Request for  
Joint Applicants to Clarify Position

Your Honor,

Attached please find Joint Applicants' response to your October 2, 2003  
e-mail questions.

Respectfully submitted,

David J. Miller  
Senior Attorney  
AT&T Law & Government Affairs  
795 Folsom Street, Room 2159  
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**1. I understand that JA's original proposed weighted average cost of capital of 7.7% was "corrected" in the 2/7/03 filing to 7.8%, then "updated" to 7.51%. But I am unclear on whether JA then update that proposal on 3/12/03 to 7.63%, or whether the new 7.63% figure is merely used to attempt to show that either 7.8% or 7.51% are reasonable.**

The 7.63% is an update of Joint Applicants' proposal based on then-current data.

**2. Ms. Murray's declaration of 3/12/03, para. 105 refers to 7.63%, but does not provide a cite showing how she calculates this. Where is the supporting documentation showing the components of the entire calculation?**

The supporting documentation can be found in Exhibit TLM-REB-5 to Ms. Murray's declaration of 3/12/03. Within that exhibit, the components of the calculation are contained in an Excel file called "SBC\_Pacific\_COC\_022803.xls."

The 7.63% figure is shown in cell "D8" of the first page or "tab" in that file, which is named the "Summary" tab. It is labeled as the "Total" for the "WACC without Qwest as a Comparable and with Debt Rolled Over at Future Rates" calculation. The components of the calculation are shown in the table above the "Total" (cells B5-D7). Clicking on any cell will reveal the formula underlying the calculation of the amount in that cell. Please note this is not possible with a paper printout of this file.

The 7.63% figure also appears at cell B44 of the "Summary" tab. The table immediately above cell B44 contains more detail regarding the components of the calculation that results in 7.63%. Again, clicking on any cell will reveal the formula underlying the calculation of the amount in that cell.

**3. Ms. Murray's declaration of 3/12/03, para 103, states that her cost of equity estimates are updated to an average of 9.92%. What cost of equity estimates is she referring to and where can I find the calculations in the 3/12 filing that support a 9.92% cost of equity.**

Ms. Murray is referring to the discounted cash flow ("DCF") and the Capital Asset Pricing Model ("CAPM") cost of equity estimates. The calculations supporting the 9.92% average cost of equity are found in Exhibit TLM-REB-5 to Ms. Murray's 3/12/03 declarations.

In Exhibit TLM-REB-5, the calculation of the 9.92% cost of equity can be found in the "Summary" tab of the Excel file "SBC\_Pacific\_COC\_022803.xls" at cells B34-B36. Clicking on any cell will reveal the formula used to calculate the amount in that cell. As those formulas indicate, the calculations that generate the DCF and CAPM figures

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individually appear in the “DCF” and “CAPM (No Qwest)” tabs of the same Excel file. The “Sources” tab in that Excel file identifies the source data used in each calculation.

**(END OF ATTACHMENT 1)**